

**PE ELL SCHOOL DISTRICT No. 301**  
**Lewis County, Washington**  
**September 1, 1992 Through August 31, 1994**

---

**Schedule Of Federal Findings**

---

1. The District Should Implement Control Procedures To Ensure That Payroll Charges To Federal Programs Comply With Federal Regulations

The district does not have an adequate system to ensure that only actual payroll expenditures are charged to the Chapter 1 program (CFDA 84.010). We considered the following internal control weakness to be a material weakness and a reportable condition. Charges to the Chapter 1 program were processed through the district's payroll system using a predetermined rate.

The district began using a blended Chapter 1 program for fiscal year 1993-94. During this period, the district did not maintain contemporaneous time distribution records to support the amount charged to the Chapter 1 program. The time records for the audit period did not provide for actual time worked in a measurable form.

The U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs charged to federal grant programs. Among those standards are:

- a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.
- b. Salaries and wages of employees chargeable to more than one grant program or other cost objective must be supported by appropriate time distribution records.

We determined that payroll costs charged by Chapter 1 were less than the costs incurred by the program. Therefore, we have not questioned costs in this matter.

In the absence of a reliable system that meets the federal requirements, payroll costs could be charged to the Chapter 1 program for services not provided to the program.

We recommend the implementation of a time reporting system that complies with OMB Circular A-87 for all federal programs that are charged through payroll.